STATE OF MAINE PUBLIC UTILITIES COMMISSION	)	Docket No. 97-580
	)	January 25, 2000
CENTRAL MAINE POWER COMPANY Investigation of Central Maine Power Company's Stranded Costs, Transmission and Distribution Utility Revenue Requirements, and Rate Design	)	STIPULATION

The undersigned parties to the above-captioned proceeding ("Parties") hereby enter into this Stipulation in order to settle all remaining issues bearing on the above-captioned proceeding, and thereby avoid further litigation.

THE PARTIES TO THIS STIPULATION STIPULATE AND AGREE THAT:

1. Under "An Act to Restructure the State's Electric Industry" ("Restructuring Act") the Commission is required to establish the recoverable stranded costs and transmission and distribution ("T&D") revenue requirement for each investor-owned utility prior to the advent of retail choice on March 1, 2000. P.L. 1997, ch. 316, *codified in part at* 35-A M.R.S.A. § 3208(8). By Notice dated September 30, 1997, the Commission commenced this proceeding to achieve this legislative mandate and derive CMP's unbundled rates.

2. On March 19, 1999, the Commission issued its first substantive Order in the case (the "Phase I Order"). The Commission did not establish either stranded costs or a T&D revenue requirement in that Order but, rather, set forth principles to guide the further litigation of the proceeding. Among other things, the commission ruled that:

(a) CMP must seek a Private Letter Ruling ("PLR") from the Internal Revenue Service ("IRS") seeking a determination whether, upon the sale of the Company's generation assets in accordance with the Restructuring Act, the unamortized investment tax credit ("ITC") and excess deferred income taxes ("EDIT") could be flowed through to customers to reduce their rates or, instead, must be flowed through to shareholders pursuant to the so-called normalization rules. Furthermore, the Order required CMP to record the unamortized ITC and EDIT as a deferred liability on its balance sheet at the time of closing on its asset sale.

(b) Union Water Power Company ("UWP") was entitled to the gain on the sale of its assets to FPLE and that $6.5 million of the amount realized on the sale was allocable to UWP's assets.

(c) Upon the closing of its generation asset sale to FPLE, CMP would create a so-called asset sale gain account ("ASGA") which would represent the available value for customers after certain enumerated adjustments to the total sales price. When rates go into effect from this case, CMP will write off against the ASGA certain regulatory assets, including abandoned plants, power production costs, QF contract restructuring costs and certain DSM costs.

(d) That CMP would not be permitted to write off any of its Millstone 3 investment against the ASGA because of current uncertainties surrounding the future of the plant; but that either in Phase II of the case or when stranded costs are reset, this decision would be reviewed if some of the uncertainties are resolved.

Treatment of Unamortized ITC and EDIT

3. By letter dated April 29, 1999, Bradley M. Seltzer (of Deloitte, Touche) requested the PLR described in paragraph 2(a) above and asserted that flowthrough of the EDIT and ITC to customers would be a violation of the normalization rules. The submission prepared by the Office of the Public Advocate supporting flowthrough was included with that filing. In addition, the

Commission made a submission to the IRS on June 21, 1999, requesting that the IRS permit flowthrough of the ITC and EDIT to customers. On September 28, 1999, a conference was conducted by the IRS; and post-conference submissions were made by CMP and the Commission on October 19, 1999.

4. On January 6, 2000, the IRS issued a PLR to CMP concluding that flowthrough to customers of any unamortized ITC or EDIT related to the divested generation assets would be a violation of the normalization rules contained in §§ 46, 167 and 168 of the Internal Revenue Code (26 U.S.C.). In accordance with Generally Accepted Accounting Principles ("GAAP"), CMP will remove the regulatory liabilities relating to the unamortized ITC and EDIT associated with the divested generation assets from its balance sheet. Further, the Commission will not in this or any other proceeding, either directly or indirectly, flow through to customers any of the benefit associated with such unamortized ITC or EDIT.

Gain Allocable to Union Water

5. In a Motion dated April 8, CMP sought reconsideration of the Commission's Phase I Order with respect to, among other things, its decision that only $6.5 million of the asset sale proceeds should be allocated to UWP (CMP's Memorandum in Support of the Motion was filed on April 13). CMP argued that the $18 million from the original asset purchase agreement and the additional $1.7 million from the supplemental agreement should be allocated to UWP.

6. By Order dated June 22, 1999, the Commission denied CMP's motion for reconsideration on the UWP issue.

7. By notice dated July 19, 1999, CMP appealed the Commission's Phase I Order insofar as it related to the UWP issue. The Law Court docketed the appeal as Law Docket No. PUC-99-455. CMP filed its initial brief on October 12, 1999; the Commission and the Public

Advocate filed their briefs as appellees on December 13 and 15, 1999, respectively. CMP filed its reply brief on January 7, 2000. Oral argument is scheduled to be heard on this matter on February 7, 2000.

8. It is stipulated and agreed that, upon acceptance of this stipulation by the Commission, CMP will seek to dismiss its appeal of Law Docket No. PUC-99-455 with prejudice and that the Commission and the Public Advocate will execute the documents necessary for the Law Court to dismiss the appeal.

Treatment of Millstone 3 and the CMP/NU Settlement

9. On August 7, 1997, CMP and the other minority owners of Millstone 3 filed judicial and arbitration proceedings against Northeast Utilities and its subsidiaries ("NU") seeking to recover damages for the mismanagement of the plant resulting in significant replacement power costs and incremental operations and maintenance costs. CMP and NU are prepared to execute a settlement agreement (the "Settlement Agreement") to resolve the litigation and provide for the sale of CMP's 2.5% ownership interest in Millstone 3 as part of NU's divestiture process. The Settlement Agreement has been filed with this Commission in Docket No. 99-928 (and is incorporated herein by reference) in which CMP asked the Commission to waive jurisdiction over the transaction or, in the alternative, to permit its consummation with a reservation of ratemaking authority over the proceeds from the settlement. In a Procedural Order dated January 18, 2000, the Hearing Examiner in Docket Nos. 98-058 and 99-928 stated that he would treat CMP's request in Docket No. 99-928 (approval of the transfer of the Millstone 3 asset) as a request to supplement the Company's divestiture plan approval in Docket No. 97-523 and executed and approved in Docket No. 98-058. The Examiner requested comments on this proposed action by January 24, 2000.

10. The parties hereto agree that the Settlement Agreement is prudent and that the following ratemaking should be adopted with respect to Millstone 3 and the Settlement Agreement. The parties agree that CMP is entitled to the initial payment from NU under the Settlement Agreement as compensation for costs incurred during the ARP and sought through the NU litigation, and that customers are entitled to all future recoveries because Millstone 3 is a rate base asset and its costs are included in rates. Furthermore, avoiding future liabilities for Millstone 3 decommissioning and spent fuel is significant, and CMP's understanding that paragraph 1.7 of the settlement agreement avoids these potential, future liabilities is an important consideration for the parties' stipulation that the Settlement Agreement is prudent.

(a) The initial payment described in paragraph 1.1 of the Settlement Agreement shall inure to the benefit of CMP and shall be recorded to its income upon execution of the agreement.

(b) The subsequent payment to CMP upon the closing of the sale of Millstone 3, provided in paragraph 1.3 (as modified by paragraph 1.6) of the Settlement Agreement, net of any decommissioning payment due under paragraph 1.8, shall inure to the benefit of customers and shall be added to the balance of the ASGA upon its receipt.

(c) To the extent CMP makes or receives any payments pursuant to paragraphs 1.4, 1.5 or 1.9 of the Settlement Agreement, such payments shall inure to customers and shall be added to the ASGA upon their receipt.

(d) To the extent CMP is required to make payments for capital additions relating to Millstone 3 after March 1, 2000, and prior to the disposition of the plant pursuant to the Settlement Agreement, the balance of the undepreciated capital additions, including income tax effects, remaining on CMP's balance sheet immediately prior to the disposition of the plant shall be charged against the ASGA upon disposition of the plant.

(e) Effective March 1, 2000, $88,226,000 consisting of the undepreciated Millstone 3 plant balance, the regulatory asset relating to the impairment of Millstone 3, the non-provided deferred income taxes on the plant, and the materials and supplies account shall be written-off against the ASGA. Simultaneously, the unamortized ITC and EDIT relating to Millstone 3 shall inure to the benefit of CMP's shareholders.

(f) Upon the sale of Millstone III, CMP will increase or decrease the ASGA for any unreimbursed nuclear fuel investment, including income tax effects.

Treatment of Gains from Sales of Right-of-Way (Docket No. 99-155)

11. On March 15, 1999, the Company filed its annual update pursuant to its Alternative Rate Plan ("ARP") in Docket No. 99-155. The only controversial issue in that proceeding was treatment of certain gains recognized by the Company from sales of right-of-way easements to the Portland Natural Gas Transmission System and Maritimes & Northeast Pipeline for interstate, natural gas pipelines. In general, the Company asserted that the gains from the sales inured to the benefit of shareholders, while the Public Advocate asserted that the gains belonged to customers. In an Order dated August 2, 1999, the Commission ruled that CMP was entitled to 10% of the gains and that the remainder should be amortized over five years beginning in the month of the sale. By Motion dated August 20, 1999, CMP sought reconsideration of that decision. The Commission denied CMP's motion in an Order dated January 20, 2000.

12. The parties hereby stipulate and agree that they will not seek to overturn the Commission's decision in Docket No. 99-155 in any judicial forum.

The Phase II and Other Related Proceedings

13. In accordance with the Phase I Order, on July 1, 1999, CMP filed its Phase II case. In that filing, CMP updated certain test year data to reflect known and measurable changes to its revenue requirement (e.g., payroll costs, medical costs, A&G allocations, and employee transition costs), updated its stranded cost numbers to reflect actual data from the closing of the generation asset sale (e.g., carrying costs on available value) and performed its rate design based upon the Phase I Order. In that filing, however, many numbers were not ultimately useful in the determination of rates because neither the auction of the output of CMP's non-divested generation resources nor the standard offer bid process was complete. Also in that filing, CMP requested authority to defer various items and apply certain other costs against the ASGA as they occurred. No party or the Bench objected to these requests during Phase II. Various parties and the Bench did, however, oppose several of CMP's updates and methodological changes in the filing and the issues were litigated during the latter half of 1999.

14. In an Order dated December 3, 1999, in Docket No. 99-764, the Commission approved the sale of the output of CMP's non-divested generation assets.

15. By Order dated October 25, 1999, in Docket No. 99-111, the Commission accepted the bid of Energy Atlantic to provide standard offer service to CMP's residential and small commercial customers at a price of $.04089/kWh. Also in that Order, the Commission rejected the standard offer bids for medium and large commercial and industrial customers and sought a second round of proposals.

16. By Order dated December 3, 1999, in Docket No. 99-111, the Commission again rejected the standard offer bids for CMP's medium and large classes. The Commission administratively set the price for that standard offer service at $.04089/kWh.

17. The Commission deliberated the litigated issues in Phase II of Docket No. 97-580 on December 1, 1999, and reached decisions on the issues. These decisions are incorporated into the Phase II Order dated January 19, 2000. The Commission concluded, among other things, that:

(a) CMP's requested increase to rate year A&G expenses of $3.923 million is limited to $2.317 million.

(b) CMP's requested increase in rate year payroll expense of $6.6 million is rejected.

(c) CMP's requested medical expense increase of $1.175 million is limited to $980,438.

(d) CMP's request to recover $13.048 million of employee transition costs is limited to $8.344 million (including severance).

(e) The Public Advocate's request that, upon the expiration of the amortization for recovery of ice storm costs, CMP will defer for future flowback to customers the expired amortization is granted.

(f) The request of the IECG, FPL and IEPM for the continuation of Rates O and SB is granted.

18. The parties hereby stipulate and agree that they will not seek reconsideration of the Phase II Order, seek further judicial review of any part of that Order, or undermine the Order as it applies to Rate O and Rate SB in any way in any jurisdiction.

19. Based on the results of the auction for the output of non-divested generation, the standard offer prices and the Company's understanding of the Commission's Phase II decisions, on December 10, 1999, CMP made its Phase II-B filing in Docket No. 97-580. The total revenue requirement contained in the filing was $441,389,000 and the Company proposed amortizing $11.735 million and $1.020 million from the ASGA for the periods March 1, 2000, through February 2001 and March 1, 2001 through February 28, 2002, respectively. In that filing, the Company also explained that, due to the expiration of the ARP and the mechanism for 50-50 sharing of QF savings, approximately $8 million of QF savings would remain on its books to be returned to customers.

20. On January 11, 2000, CMP made two separate but related filings. First, in Docket No. 99-111, the Company asked the Commission to increase the administratively set standard offer prices for the medium and large classes because CMP's experience in the power market had made it clear that it could not procure a power supply and provide standard offer service at the prices previously set by the Commission. On average, the Company requested that the prices be increased to roughly $.055 and $.050 for the medium and large classes, respectively. The actual prices requested were:

STANDARD OFFER PRICES (per kWh)

	Non-summer	Summer
Medium Class	$.052219	$.064500
Large Class On-peak	$.056780	$.105826
Large Class Off-Peak	$.034100	$.036781

Second, in this proceeding, CMP updated its December 10, filing , using the requested standard offer prices as the bases for rate design and amortization of the ASGA. The Company sought to amortize the ASGA over roughly eight years, using $45.936 million and $38.629 million in the first two years, respectively.

21. On January 21, based upon the Commission's January 18, approval of a wholesale power supply contract to provide standard offer service to the medium and large classes, CMP filed a revised request to update the administratively set standard offer prices. The Company presented three scenarios based on varying ICAP prices and requested adoption of the following prices:

STANDARD OFFER PRICES (per kWh)

	Non-summer	Summer
Medium Class	$.055200	$.068100
Large Class On-peak	$.059250	$.110410
Large Class Off-Peak	$.033783	$.038823

Flowback of QF Savings

22. The parties agree that the actual amount of savings to be returned to customers from QF restructurings (net of the reconciliation of savings from the buyout of the Fairfield Energy Venture contract) is approximately $9.4 million.

23. It is stipulated and agreed that the $9.4 million of net QF savings will be applied against stranded costs over a two-year period commencing on March 1, 2000.

1999 Voluntary Earnings Sharing

24. Based upon its desire to mitigate stranded costs and reduce higher future operations and maintenance expenses, the Company hereby agrees to a one-time, voluntary earnings cap for calendar year 1999 as follows:

(a) a sharing pool will be established which shall be the greater of: (i) 50% of 1999 earnings in excess of a 12.5% return on actual Company equity before establishment of the pool or (ii) $20 million.

(b) The sharing pool will be allocated three-fourths to the mitigation of stranded costs and one-fourth to offset higher operations and maintenance expenses that will be incurred in calendar year 2001. Thus, customers are ensured that at least $15 million will be applied immediately to the mitigation of stranded costs.

(c) Rates will be set by amortizing the $15 million of stranded cost mitigation from the sharing pool ratably over twenty-four months beginning on March 1, 2000. Any excess of the portion to be applied to stranded costs over the $15 million will be added to the ASGA for future flowback to customers.

(d) Any amount available in the sharing pool, allocable to the mitigation of operations and maintenance expenses in 2001, will be flowed through ratably over the twelve months in 2001.

Alternative Amortizations for the ASGA

25. The parties stipulate and agree that the balance of the ASGA for ratemaking purposes is $252,493,000. Two of the primary goals of the parties to this stipulation are avoidance of negative rate impacts at the time retail choice is implemented and use of the ASGA in a manner that minimizes price fluctuations during the period over which stranded costs and the ASGA are reduced. Because of the interplay between standard offer prices and the goal of minimizing negative rate impacts upon the implementation of retail choice, the parties provide the Commission with the following two alternative amortization approaches to the ASGA:

(a) Scenario 1: To levelize stranded costs over the two-year rate period and to mitigate stranded costs generally, the parties agree that $24,528,000 and $17,155,000 of the ASGA will be amortized over the periods March 1, 2000, through February 28, 2001 and March 1, 2001, through February 28, 2002, respectively. The parties recognize that flowback of the remainder of the ASGA after February 28, 2002, is at the discretion of future Commissions but, if amortization is done on a straight-line basis from that point forward, the ASGA will be fully returned to customers in mid-2008 as shown in Exhibit 1 hereto. The parties agree that the Commission should increase the amortization of the ASGA in year three in order to offset the reduction in stranded costs described in paragraphs 23 and 24(c) above that end on February 28, 2002. Stipulation Exhibit 1 contains the details of this scenario.

(b) Scenario 2: If the Commission chooses to administratively adopt standard offer prices that are higher than those proposed in CMP's January 11 filing and concludes that the potential for negative bill impacts is unacceptable for customers who may take standard offer service, the parties agree that the ASGA should be amortized over eight and one half years on a straight-line basis at a rate of $29,700,000. To levelize stranded costs over the two-year rate period, the parties agree that $33,554,000 and $26,693,000 of the ASGA will be amortized over the periods March 1, 2000 through February 28, 2001, and March 1, 2001 through February 28, 2002, respectively. It is recognized that, if all other things remain unchanged, this would cause revenue requirements to increase by approximately $10 million on March 1, 2002, because of the expiration of the amortizations of the amounts set forth in paragraphs 23 and 24(c). The parties recognize that flowback of the remainder of the ASGA after February 28, 2002, is at the discretion of future Commissions. Stipulation Exhibit 2 contains the details of this scenario.

Treatment of Loss on the Sale of the York Service Building

26. The parties stipulate and agree that CMP incurred a $1,074,000 loss on the sale of its former York service building and that loss will be recovered in rates ratably over 60 months beginning March 1, 2000.

Rates for the Period Beginning on March 1, 2000

27. Based upon the foregoing, as well as the Commission's Phase I and Phase II Orders, the parties stipulate and agree that the Company's combined transmission and distribution rates charged under each of its most commonly used core tariffs will be as set forth in Exhibit 3 effective March 1, 2000, if Scenario 1 described in paragraph 25(a) is adopted; if Scenario 2, described in paragraph 25(b) is adopted, the rates are set forth in Exhibit 4. Upon approval of this Stipulation by the Commission, CMP will file with the Commission a complete set of its rate schedules and changes to its Terms and Conditions necessary to implement retail choice.

Deferrals of Certain Costs

28. To allow CMP to recover costs that are not currently included in the revenue requirement resulting from this proceeding, the parties agree that CMP shall defer with carrying costs the following items, and CMP will be allowed to recover such deferred amounts, to the extent prudently incurred, in a future rate setting proceeding:

(a) The incremental costs of complying with L.D. 665, An Act to Protect the Environment by Phasing Out the Use of Old Transformers that are Potential Sources of PCB Pollution.

(b) For the two-year period March 2000 through February 2002, any difference between the actual prices paid to Sappi Somerset and United American Energy Corp. under the respective purchase power agreements and the prices assumed in setting rates in this proceeding. and

(c) Throughout this proceeding, the parties and the Commission have recognized that prices charged to customers under targeted contracts or under non-core rates would, to some extent, be dependent upon market energy prices available at the advent of retail choice. It was anticipated that such prices would be known with a high degree of accuracy in time to set the final retail rates. Finally, it was agreed that the core revenue requirement would be the difference between the total revenue requirement and the revenue received from such non-core customers. In its Order on Reconsideration dated June 22, 1999, the Commission divided these non-core customers into three categories: (i) unbundled existing contracts (where the contract extends beyond March 1, 2000, and CMP and the customer are required to unbundle the contract, maintaining existing benefits and burdens), (ii) ARP comparable renewals (where the contract or program is a renewal of an ARP arrangement), and (iii) new/changed contracts or rates (where no comparable ARP arrangement exists). Because market energy prices remain uncertain at this time, the T&D contribution has been computed on an assumed energy price. For the two year period March 2000 through February

2002, the parties agree that only for categories (i) and (ii) CMP shall be allowed to defer for future recovery the difference between the transmission and distribution prices paid by customers under targeted rates and contracts and the transmission and distribution prices assumed to be paid by these customers for establishing rates in this proceeding consistent with the procedural and ratemaking decisions set forth in the June 22 Order on Reconsideration.

29. The parties stipulate and agree that CMP shall defer with carrying costs for later offset, to the extent prudently incurred, against the ASGA the following costs, which are not included in the determination of stranded costs in this proceeding:

(a) Any differences between the transitional power supply projections used in determining available value in this proceeding and actual transitional power supply costs based upon actual hydro deliveries and using oil prices based upon Maine Public Service's W. F. Wyman buy-back arrangement with PDI New England, both for W. F., Wyman Unit No. 4 and for the other oil-fired units, after adjusting for CMP's projected sulfur price differentials. By May 15, 2000, CMP shall make a compliance filing with the Commission setting forth any amount so deferred. Within 30 days, the Director of Technical Analysis shall find either that the filing is in compliance, and the amount should be applied to the ASGA, or that the matter should be reviewed by the Commission.

(b) Amounts of environmental remediation costs related to the divested generation assets in excess of $1.548 million.

(c) Amounts for other costs or refunds related to the divested generation assets that are not reflected in the determination of available value in this proceeding. and

(d) Outside legal costs and any payments made related to the action of the joint owners of W.F. Wyman Unit 4 against CMP.

(e) With respect to the deferrals established in subparagraphs (b) through (d) of this paragraph, CMP shall file a list of each item deferred containing the amount of the deferral and an explanation for the expenditure on the later of: (i) when the amount deferred exceeds $5 million, or (ii) at the time when stranded costs are reset in accordance with § 3208. The Commission shall allow offset of each such amount against the ASGA unless, after providing the Company with a hearing on each amount that is recommended for disallowance, the Commission explicitly finds that such expenditure was imprudently incurred. Nothing in this subparagraph modifies the burdens of proof otherwise established in Title 35-A M.R.S.A. and applicable Commission precedent.

Tax Findings for Millstone 3 Decommissioning

30. In order for CMP to deduct on its income tax returns the payments for Millstone 3 decommissioning after February 29, 2000, the parties stipulate and agree that:

(a) The Financing Plan for decommissioning costs established by the Connecticut Department of Public Utility Control by its Order dated February 5, 1999, in Docket No. 98-0102 is reasonable for ratemaking purposes;

(b) The decommissioning payments of $419,250 per year (CMP's share of the decommissioning costs included in the Financing Plan established by the

Connecticut Department of Public Utility Control are included in the Company's revenue requirement); and

(c) The after-tax rate of return of 5.3% for the decommissioning fund is reasonable, that rate of return being approximately equal to the decommissioning cost escalation.

Legal Effect of this Stipulation

31. The execution of this Stipulation by any Party shall not constitute precedent as to any matter of law or fact nor, except as expressly provided herein, shall it foreclose any of the Parties from making any contention or exercising any right, including rights of appeal, in any other Commission proceeding or investigation, or any other trial or action.

32. The Parties intend that this Stipulation be considered by the Commission for adoption as an integrated solution to the issues addressed herein which arose in the above-captioned proceeding and as otherwise presented in this Stipulation. The parties also intend that this Stipulation shall be null and void, and not bind the parties in the above-captioned proceeding, in the event the Commission does not adopt this Stipulation without material modification.

33. If not accepted by the Commission in accordance with the provisions hereof, this Stipulation shall not prejudice the positions taken by any Party on these issues before the Commission in this proceeding and shall not be admissible evidence therein or in any other proceeding before the Commission.

Dated: _______________ CENTRAL MAINE POWER COMPANY

By: _________________________________

Dated: ________________ THE PUBLIC ADVOCATE

By: _________________________________

Dated: ________________ INDUSTRIAL ENERGY CONSUMER GROUP

By: _________________________________

Dated: ________________ INDEPENDENT ENERGY PRODUCERS
OF MAINE

By: _________________________________